

The Role of Volition in Firms' Management of Product-harm Crisis

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Cite as:

Shen Peng, Astvansh Vivek (2020), The Role of Volition in Firms' Management of Product-harm Crisis. *Proceedings of the European Marketing Academy*, 49th, (54329)

Paper from the 49th Annual EMAC Conference, Budapest, May 26-29, 2020.



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Abstract

In response to the recent surge in product-harm crises, lawmakers and business press have demanded the regulators to influence manufacturers' decisions of announcing product recall, rather than let the manufacturers volitionally decide. Does an influenced recall achieve superior public safety outcomes, relative to a volitional recall? The authors draw attention to the actual outcome that is at stake here – completion, and not mere announcement, of recall. In the context of 727 vehicle recalls announced in the U.S. during 2013-2017 by 26 manufacturers, the study shows that relative to an influenced recall, a volitional recall improves the manufacturer's recall planning. Improved planning, in turn, helps the manufacturer complete recall more promptly, thus yielding superior public safety outcome. The volition effect is stronger when the recall planning requires information that is internal to the manufacturer, but weaker when information is sourced externally. The results are robust to alternative model specifications, estimations, measures, and context (medical device recall). The evidence suggests that public safety is better preserved when the manufacturer is allowed to exercise volition in managing the crisis.

Keywords: *recall; crisis; self-regulation*

Track: Social Responsibility & Ethics